

Message Text

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ACTION EA-06

INFO OCT-01 ISO-00 EB-03 L-01 INR-05 SS-14 SP-02 NEA-06

OES-02 RSC-01 /041 W

----- 118906

R 100915Z JAN 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC 9754

C O N F I D E N T I A L MANILA 0469

STADIS LIMDIS////////////////////

E.O. 11652: GDS

TAGS: ENRG, RP

SUBJECT: MOBIL OIL

REF: STATE 4263; MANILA 0381

1. ECON/COMMERCIAL COUNSELOR DISCUSSED SUBJECT IN DEPTH JAN. 10 WITH INDUSTRY SEC PATERNO, NOTING FOUR KEY ISSUES ON WHICH FUTURE RESOLUTION OF PROBLEM APPEARED TO REST: (A) GOP INTENTIONS RE MOBIL'S SEVEN PERCENT SHARE PURCHASE OPTION; (B) REAL GOP POSITION RE LINK BETWEEN EQUITY STRUCTURE OF BRC AND LAND OWNERSHIP; (C) PROSPECTS FOR IMPLEMENTATION OF SHAREHOLDERS' AGREEMENT; AND (D) LIKELY OUTCOME OF DISPUTE OVER SERVICE AND TECHNICAL AGREEMENT. FOR INFO DEPARTMENT, PATERNO'S VIEWS, AS A MEMBER OF THE PNOC BOARD, ON EACH ISSUE ARE PROVIDED IN SOME DETAIL.

2. THE SHARE OPTION. ARNOLD SAID IT SEEMED UNLIKELY GOP WOULD HAVE ENTERED INTO THE OPTION AGREEMENT IF THERE WERE NO INTENT TO FOLLOW THROUGH; HE WONDERED WHAT GOP INTENTIONS WERE. AT PRESENT PATERNO REPLIED THAT GOP QUOTE FELT OVER A BARREL UNQUOTE AT THE TIME (DECEMBER 1973), BECAUSE BOTH THE ARABS AND EXXON WERE CASTING DOUBT ON IMMEDIATE FUTURE OIL SUPPLIES. GOP, REPORTS PATERNO, ENTERED INTO THE OPTION AS THE ONLY WAY TO ACQUIRE REFINERY CAPACITY QUICKLY AND QUALIFY UNDER PERCEIVED ARAB EMBARGO RULES. HE SAID HE DID
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NOT KNOW WHAT PALACE VIEW WAS NOW, BUT THAT ROOT OF TROUBLE

WAS THAT PUBLIC ASSURANCES OF SAUDI'S, E.G. IN PETROMIN LETTER TO MOBIL, WERE NOT MATCHED IN PRIVATE STATEMENTS OF SAUDI OFFICIALS WHO HAVE TAKEN VIEW THAT QUOTE IT WOULD BE WISER TO OWN A MAJORITY. UNQUOTE IN STATEMENTS IN JIDDA AND IN MANILA.

3. THE LAND-EQUITY LINK. DESPITE THE ABAD SANTOS OPINION, PATERNO AGREED THAT, AS MOBIL CONTENTED IN A PRESS RELEASE PUBLISHED IN BULLETIN TODAY JAN.10, THE LAND OWNERSHIP ISSUE AND THE EQUITY PROBLEM WERE NOT REPEAT NOT LINKED, UNLESS MOBIL INSISTED ON HAVING A REFINERY CONCESSION. PATERNO NOTED THAT SHELL HAS NEVER HAD SUCH A CONCESSION AND OPERATES A REFINERY THAT ONLY NOW IS MOVING TO 60-40 FOREIGN MAJORITY OWNERSHIP. THIS SEEMED VERY MUTED SUGGESTION THAT IF MOBIL IS THINKING OF PUSHING FOR RESTORATION OF THE CONCESSION, THE FIRM WOULD BE BETTER OFF WITHOUT IT.

4. PROSPECTS FOR SHAREHOLDERS' AGREEMENT. PATERNO SAID CATEGORICALLY THAT IF MOBIL WERE CONCERNED ABOUT GUARANTEES UNDER THIS AGREEMENT OR OTHER ASSURANCES OF MINORITY RIGHTS THESE COULD BE GIVEN. HE LEFT UNANSWERED A QUESTION WHETHER THIS IMPLIED MERE CONTINUATION OF THE OLD EXXON/MOBIL TEXT OR CONTEMPLATED SOME RENEGOTIATION.

5. THE S&T AGREEMENT. AS PATERNO EXPLAINED ORIGINAL GOP THINKING, IT WAS AGREED IN-HOUSE THAT THE S&T AGREEMENT, WHICH PNOB CHAIRMAN VELASCO WANTED TO TERMINATE WITH EXXON DEAL, WOULD BE LEFT IN FORCE FOR ONE YEAR AND, IF FOUND SATISFACTORY -- ESPECIALLY RE ORDER OF SERVICE RENDERED FOR A 3 CENTS/BBL FEE -- WOULD BE CONTINUED. GOP INVOCATION OF TERMINATION CLAUSE REFLECTS GOP DECISION TO RENEGOTIATE. (THE AGREEMENT RUNS ONE YEAR AT A TIME SUBJECT TO NOTICE OF INTENT TO TERMINATE NINETY DAYS BEFORE RENEWAL DATE). ACCORDING PATERNO, IF PNOB AND MOBIL ARE UNABLE TO REACH ACCORD ON NEW TERMS BY MID-FEBRUARY, THE BRC S&T CONTRACT WILL BE OFFERED TO A THIRD PARTY -- AS YET UNSPECIFIED.

5. COMMENT: PATERNO, WHO IS OBVIOUSLY THOROUGHLY FAMILAR WITH THE ISSUES, LAID PRIMARY STRESS IN HIS COMMENTS ABOUT A SETTLEMENT ON THE LONG-STANDING PERSONALITY CLASH BETWEEN CONFIDENTIAL

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MOBIL AND PNOB. HE OFFERED NO SUGGESTION THAT PNOB MANAGEMENT WOULD CHANGE, AND HE EXPRESSED A STRONG HOPE THAT THE MATTER WOULD NOT BE ALLOWED TO ESCALATE. IN THAT RESPECT, HE AGREED WITH VIEW THAT PNOB CHAIRMAN VELASCO IS USING AN ASSAULT ON THE SHAREHOLDERS AND S&T AGREEMENTS TO FORCE THE ISSUE WITH MOBIL ON THE SHARE OPTION. PATERNO SEEMED MORE SANGUINE ABOUT PROSPECTS FOR EVENTUAL COMPROMISE THAN HAVE BEEN RECENT SIGNALS FROM

THE PALACE.
SULLIVAN

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Message Attributes

Automatic Decaptioning: Z
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM INDUSTRY, DISPUTES, JOINT VENTURES, REFINERIES, STOCKS (SECURITIES)
Control Number: n/a
Copy: SINGLE
Draft Date: 10 JAN 1975
Decaption Date: 28 MAY 2004
Decaption Note: 25 YEAR REVIEW
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975MANILA00469
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750010-0593
From: MANILA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750162/aaaaccmr.tel
Line Count: 117
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: STADIS
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: STADIS
Reference: 75 STATE 4263, 75 MANILA 0381
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 22 JUL 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <22 JUL 2003 by ShawDG>; APPROVED <23 JUL 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: MOBIL OIL
TAGS: ENRG, RP, US, MOBIL OIL, PNOC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006